

clude. It puts the average five-year-old at a disadvantage when compared to children who are 12 to 15 months older. It means that younger children may be labeled immature (and studies have shown that such children are consequently more likely to be judged learning disabled). It makes drop-out rates a bigger drag on the economy because teenagers who leave school as soon as the law lets them often have less education under their belts. It also depresses lifetime earnings by delaying entry into the labor market.

In the end, the increased number of senior kindergarteners has implications for that “third rail of American politics,” Social Security. Reduced labor force participation among millions of young workers is problematic when the fertility rate is falling and the baby boomers are retiring. Delayed students are delayed workers who pay one year less into the Social Security trust fund.

ECONOMICS, LABOR & BUSINESS

Beating the Market

THE SOURCE: “The Elusiveness of Investment Skill” by Robert A. Jaeger, in *The Journal of Wealth Management*, Fall 2008.

YOU’VE HEARD IT A MILLION times: Nobody can beat the stock market, so just stash your investment dollars in index mutual funds and settle for “the average return.” Behind that nostrum is the so-called efficient market

A denizen of the hedge fund world says that investment prowess is no more common there than elsewhere.

theory, which holds that stock prices already reflect all the available information about a company, making it impossible for anybody to get a leg up.

Efficient market theory no longer dominates the academic discipline of finance, says Robert A. Jaeger, senior market strategist at BNY Mellon Asset Management, but it has left a legacy: the notion that there is no such thing as a skilled investor, and no way to distinguish skill from luck. Not true, Jaeger argues.

Two strands of the theory challenge the notion of skill. One is the idea that “there are no free lunches”: No market inefficiencies exist that might enable investors to make money without taking risk. Risk, the argument goes, will always catch up with successful investors, reducing their returns to the norm. The second idea is that “nobody knows anything”: Investors can’t predict the future. But, Jaeger says, those who have skill as investors don’t exploit market inefficiencies or use vatic powers to see tomorrow’s stock market. They make “intelligent judgments about risk and reward.”

Paraphrasing billionaire speculator George Soros, he writes, “The question is not whether you’re right or wrong—it’s how much you make when you’re right and how much you lose when you’re wrong.”

Efficient market theorists believe that investors are totally rational. In fact, Jaeger says, they are driven by fear, greed, and a host of behavioral “biases.” But irrationality still doesn’t create free lunches or predictable prices. Even during bubbles and panics, which are prime moneymaking opportunities for savvy investors, there are no riskless profits and no way to forecast market turning points. Many hedge funds lost money “selling short” too early during the market bubble of the past few years, and many sovereign wealth funds lost money buying too early during the ensuing panic.

Although the stock market is unpredictable, efficient market theorists are wrong to claim that it is a “random walk,” Jaeger adds. Random events can’t be explained even after the fact, but market events can.

Theorists resort to the example of coin tosses to explain the success of the few investors who do manage consistently to outpace the market. Just as it’s possible to get 20 straight “heads” when tossing a coin, so it’s possible by sheer luck to beat the market 20 years running. But there’s another possibility, Jaeger points out. Maybe the coin is biased—weighted in such a way that heads is more likely to turn up. A successful investor’s performance

may likewise be “weighted” by skill.

None of this means you should rush to place bets on your favorite stocks and mutual funds. Skill is rare, according to Jaeger. He is himself a denizen of the hedge fund world (and a former professor of philosophy at Yale), and he says

that prowess is no more common there than elsewhere. Hedge fund managers have more freedom to exploit unusual investment strategies than other managers do, but that also gives them more ways to get into trouble. A bad stumble one year can erase several years of outsize returns. Most discouraging of

all, even a 20-year record of outstanding skilled performance is no guarantee of a good showing next year—winners can freeze up, overreach, or fail to adjust to changing conditions. As they warn in the mutual fund business, past performance is no guarantee of future results.

PRESS & MEDIA

Virtually Invisible

THE SOURCES: “Electronic Publication and the Narrowing of Science and Scholarship” by James A. Evans, in *Science*, July 18, 2008, and “Open Access Publishing, Article Downloads, and Citations: Randomised Controlled Trial” by Philip M. Davis, Bruce V. Lewenstein, Daniel H. Simon, James G. Booth, and Mathew J. L. Connolly, in *BMJ*, Aug. 9, 2008.

THE ARRIVAL OF THE INTERNET ushered in a rapid expansion of library holdings everywhere. Readers suddenly had access not only to what rested on the shelves, but also to countless books and journals from all over the world. It seemed only a matter of time before scholars took this abundance of resources and translated it into broader and more innovative research. But if you’re waiting for that day, don’t hold your breath, advises James A. Evans, a sociologist at the University of Chicago.

Unlikely as it may seem, Evans’s study of more than 30 million articles found that as journals go online, researchers actually see less of their contents. For every additional year of ar-

chives a journal makes electronically available at no charge, the number of distinct articles cited in other journals falls by 14 percent on average. Moreover, the articles that are cited tend to be more recent. In other words, if a journal puts more of its older issues online, the effect will be that the newer articles receive more citations—perhaps because scholars are less likely to thumb through the shelved volumes when a journal’s online archive is extensive. For every additional year a journal’s online archive goes back, citations to that journal will reference articles that are, on average, 10 months more recent.

Researchers looking at a journal online may type in a search term or two and find just the article they had in mind. But what they won’t find are the older articles whose content, though perhaps not directly related, complements their research in surprising ways. Scholars have typically un-

earthed those little gems by manually flipping through the older issues on the bookshelf. Evans writes that his study “ironically intimates that one of the chief values of print library research is poor indexing.” Researching online may be more efficient, but it narrows the window scholars look through.

In a separate study, researchers at Cornell University examined what happens when a journal article is available for free to the public compared to when a subscription is necessary to view it. Philip M. Davis and his team found that providing unfettered access to an article does not increase the quantity of citations it receives. However, they studied not just how often an article was cited but how often it was read, and articles that are available for free are read much more frequently than those requiring a subscription.

As citations converge on newer and fewer articles, scholarly consensus emerges much faster. But, Evans warns, the haste may prove costly. Articles and ideas that don’t become part of the consensus will soon be lost in the never-ending flood of research.

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